CBI
Ministry of Foreign Affairs

CBI Competition:

Tea

Introduction

Although tea is one of the most consumed products in the world, the EU is a relatively small market. Typical for the tea sector is that producing countries are main consuming markets as well. The EU tea market is dominated by a limited number of large commercial tea packers. This makes the position of smallholder tea producers weak. Demand for both orthodox and specialty teas in the EU, and developments in the field of sustainability certifications are key drivers that open up opportunities for exporters who know how to identify their competitive advantages. However, entering the EU market can be difficult. EU legislation is strict and European tea manufacturers and retailers have strict importing requirements on quality, safety, health and sustainability matters. This makes it challenging for suppliers to start exporting to the EU, but tea that meets all these requirements will be easy to sell.

Market entry: The barrier of strict buyer requirements

Due to strict food safety requirements set by companies on top of EU legislation, exclusively suppliers who are able to adhere to the highest quality and food safety requirements can enter the European market. Only a minority of tea growers is able to guarantee compliance with these requirements. Especially the stringent requirements regarding pesticide residues (MRLs) create a serious barrier to those producers that want to enter the EU market (see the section on 'Buyer power').

Tips:

- Stay abreast of market access requirements. Additional information is provided on the CBI website under the section header What requirements should tea meet to be allowed on the European market?
- Buyers in the EU are increasingly requiring sustainability standards. The mainstream market shares of Rainforest Alliance and, to a lesser extent, UTZ Certified are experiencing a particularly strong increase. Note that, although sustainability certification is considered almost a 'must' for exporters to the EU, even for the mainstream market, it does not necessarily result in a premium price. As an exporter, you can inform, align and facilitate your suppliers/farmers on this issue. For specific information on standards in the EU market, refer to the ITC Standard Map.
- Standards can enhance competitiveness through improving product quality, production efficiency and access to finance. Requirements in standards to implement good agricultural practices and soil conservation, as well as improving traceability systems, have resulted in productivity gains in quality and yield and reduced human exposure to pesticides. Note, however, that complying with private standards and/or having your products certified does not automatically mean that your product will comply with EU food-safety legislation (e.g. regarding the most important issue: pesticide residues).
- Use the ITC Market Access Map to prepare your market entry.
- In some tea-producing countries, compliance with the current EU requirements on pesticide residues is considered 'almost impossible'. A strong lobby from these countries may influence EU policymakers. In the meantime, it is advised to work according to guidelines through advocacy. For example, consider what the FAO can do with regard to Codex Alimentarius levels, thus allowing authorities to determine MRLs in a different way (e.g. by conducting tests on brewed tea).
- The best way to control pests and use fewer pesticides is to apply Good Agricultural Practices (GAPs) and implement good biodiversity.
- The FAO Intergovernmental Group on Tea is a forum created for tea-producing countries (e.g. Sri Lanka, India, Japan, Kenya and Vietnam). The members of this forum perform considerable testing on brewed tea and send their results to the Codex, thereby attempting to make their voice heard by this body.

Financing new activities remains complex

Financing can be an issue, particularly for small companies. If the market requires a change of products or service, some companies may not be able to adapt. To find financing, note that large importers or distributors, and non-governmental organisations have more access to government money in the EU for sustainability projects. Further cooperation along the chain to finance and increase productivity between farmers, exporters and buyers may bring about new chances. A growing number of programmes are set up to increase this cooperation and to provide the producers with more knowledge and opportunities, such as IDH, Solidaridad and Tea2030.

Tip:

- Sustainability standards have also been found to have a positive impact on the producer communities. Higher incomes resulting from price premiums have been used to build wells, roads, schools and health care facilities, and to support women-led projects.
- If you are new to the EU market, it would be advisable to visit trade fairs and conferences in order to make business contacts. Tea & Coffee World Cup Europe and COTECA are important trade fairs; ANUGA and SIAL are important for consumer-packed tea, and Biofach focuses on organic and Fairtrade tea. For other trade fairs, visit the website of EventsEye.

2. Product competition

Substitution: Mainstream and premium teas, other beverages and other (non-EU) markets.

Increasingly segmented markets: mainstream and premium teas
EU industry and consumers demand (cheap) mainstream CTC teas. At the same time, the demand for orthodox (whole-leaf) tea and single estate teas is rising. A growing number of consumers purchase quality teas in speciality stores and the out-of-home markets. Supermarkets generally do not sell premium teas. Herbal and fruit infusions, i.e. blends of various herbs and /or fruits are sold in supermarkets, but also in the speciality sector with a higher quality of the ingredients.

Tips:

- Focus on high quality tea, mild green tea and tea with a certificate. These (specialty) markets are growing, especially in Western European countries. For more information on specific European markets, refer to CBI's Product Fact Sheets for tea.
- Find out if your market is interested in infusions. Check existing products in your target market and contact your buyers on this issue. Lipton (Unilever) has introduced a range of infusion teas. See also here for an overview of possible infusions.

Competition from other beverages

Consumers in the EU are increasingly aware of their health and look for 'pure' products. New speciality herbal teas with alleged health benefits are becoming more popular. However, consumers also want new flavours and taste experiences, so tea is mixed with or replaced by herbs or dried fruits and spices. In some countries (especially the UK and Ireland where tea is drunk with milk) water and (fresh) fruit juices partly substitute tea.

Tips:

- If you want to enter the specialty market, look for an importer or packer, specialised in this market segment. Check the European Tea Committee for its Member Organisations (national tea associations) or check the Tea Trade Directory (this is, however, incomplete). You can also consult the Ukers' Guide, but this is not free of charge. Once you have selected an association or company, contact them for further details.

The EU is a relatively small tea consuming region

Asia and Africa are the main producing continents. Main exporting countries such as Kenya, Sri Lanka, China, India and Vietnam consume tea as well. Domestic tea consumption in China and India is expected to further increase because of a growing middle class with increasing purchasing power. Most tea produced in China is consumed in the country, especially green tea (Economist Intelligence Unit, 2015). In this global context, Europe is a relatively small market.

Tips:

- Opportunities might arise in your own market. Tea consumption in producing regions, such as Africa (almost all countries) and India offer considerable growth potential for local producers (Agritrade, 2012).
- Note that EU buyers (of bulk tea) do not necessarily pay higher prices than local or regional buyers do.

3. Company competition

Rivalry between buyers of certified tea

The main tea manufacturers in the EU have made sustainability claims for the coming years. In the mainstream (retail) segment, competition will be high especially for UTZ Certified and Rainforest Alliance tea. In a niche market, competition will be high for double-certified teas, i.e. organic and Fairtrade, as there is a limited number of double certified tea gardens. Lower yields in these gardens, e.g. due to unfavourable weather conditions, can thus have a considerable impact.

Tips:

- Add extra value to your products, such as high quality service or a signature story behind your product.
- World trade for bulk tea grades is dominated by the tea auctions in Mombasa, Colombo, Jakarta, Limbe, Kolkata, Cochin, etc.

Competition between importing markets

The European market is relatively small. However there are obvious differences between the EU markets, which should be taken into account when exporting to the EU. The UK and Ireland drink black tea with milk, while in France green tea is the main commodity. In Germany, the consumption of specialty teas (in particular, green tea) is increasing, especially amongst young people. Tea importers estimate that specialty teas currently account for approximately 10% of the German market, but only 5% in the Netherlands.
Due to increasing health and safety awareness within and outside Europe, diversity of types of tea within countries is generally increasing. Yet this often remains a niche within the traditional tea culture.

Tips:

- Specialty products or products with interesting stories are becoming increasingly popular. This might be an opportunity for you. In the mainstream market, it is important to note that sustainability certification is becoming more a 'license to operate' than a way to differentiate yourself.
- Investigate ingredients for tea infusions, including herbal products. Be aware that interesting ingredients may differ from market to market. You might want to focus on a specific market or find a buyer beforehand.

Buyer power: Strict buyer requirements and fierce power of multinationals

Complex industry standards enforced by buyers
The strict European buyer requirements regarding health, safety, quality, MRLs of pesticides (e.g. anthraquinone, ethion, endosulphan), heavy metals, traceability and sustainability do not always match the capacities and reality of exporters or producers. Furthermore, individual buyers, for example in Germany, may have stricter requirements on MRLs than the official EU limits as part of their private standards (some buyers set MRLs as much as 30% lower than the limits specified at the EU level). In addition, thresholds have become more rigorous as accredited laboratories are increasingly able to detect lower residue levels on dried tea leaves. Lately, there have also been issues with the maximum level of anthraquinone in tea. As a consequence of the more stringent requirements, tea produced in some Asian countries in particular may face difficulties. In China and Vietnam for example, agro chemicals are widely available for low prices.

Tips:

- Note that standards (quality, health, social, environmental, traceability and labour) are set by international bodies (UN, OECD, ISO), the public sector (government authorities, the United States, European Commission, etc.) and the private sector (supermarkets). Before investing in compliance with standards, always check what criteria your buyers adhere to and/or check whether you can find buyers for your products.
- When negotiating a sales transaction, make sure that the contract at least stipulates the buyer specifications in terms of quality, quantity and price of the goods, the shipment period, terms of payment and delivery and the period during which the offer or bid is firm (valid).
- If a modification to an existing contract is agreed confirm it in writing (both parties).
- Additional information on EU buyer requirements is provided on the CBI website under the section header What requirements should tea meet to be allowed on the European market?

Fierce power of multinationals in the European market
The tea sector is characterised by a small number of companies controlling the entire tea supply chain in Europe. 85% of global tea production is sold by a limited number of multinationals (IISD, 2014). These multinationals, such as Unilever,

Tata Tea, Teekanne Group and many retailers, control large parts of the supply chain in terms of prices, margins and quality standards.

Tip:

- Improve your bargaining position by staying up-to-date with current market prices. World trade for bulk tea grades is dominated by the tea auctions in Mombasa, Colombo, Jakarta, Limbe, Kolkata, Cochin, etc. Also check for example the weekly reports published by Van Rees or the forecasts of the Economist Intelligence Unit.

Sustainability and transparency demands in EU
The demand for certified tea is largely driven by large-scale commitments from major tea manufacturers. As a result, UTZ Certified and Rainforest Alliance are basically found in mainstream brands, whereas Fairtrade and organic labels prevail in smaller brands. However, the desire for a transparent supply chain is expected to increase with less focus on (third party) certifications. The benefits of sustainability certification throughout the entire supply chain are not always evenly distributed amongst the various players and investments can be high. Compared to other sectors such as cacao and coffee, the tea sector is well structured with a limited amount of players and a relatively short supply chain. This is especially true when dealing with big tea estates. Here, compliance with sustainability standards and transparency are more easily managed. Tea packers increasingly source directly from these tea gardens (private sales), thus bypassing the auctions. In this way, producers/exporters may obtain price increases of up to 10 to 15 cents a kilogram (in addition to the auction price).

Tips:

- Check local governmental programmes, agricultural institutes or universities in your country to gain a good overview of the opportunities, training modules and support in the field of certification in your region. Also check sustainability standards such as ETP, Fairtrade, UTZ Certified and Rainforest Alliance) for their projects. In addition, see the ITC Standard's Map, with the latest information on standards and the opportunity to compare various standards with one another.
- Before you invest in any label/certification, consult with your buyers in order to identify their preferred sustainability labels. This may differ by country and/or retailer. For example, Rainforest Alliance is dominant in the UK, whereas UTZ Certified is the certification required by the Dutch retailer Ahold. This is even more important, given that having your tea certified does not necessarily mean that you will receive a higher price for certified tea.

Changing supplier power due to (short term) over-supply, strict buyer requirements, certification, cooperation and the possibility to sell local (non-EU) markets

Tea is grown in bigger gardens and by smallholder farmers. In Kenya, for example, around 60% of tea is cultivated by smallholders (FAO 2013). The (bulk) tea chain is characterised by concentrated purchasers leading to a relatively low supplier power. The short-term over-supply in mainstream tea further weakens their position. Also, the strict EU requirements (in terms of quality, food safety and increasingly sustainability), might weaken the position of smaller producers in particular as certain factors need to be guaranteed by the producers. Because of the size of local tea markets, traders can easily decide to sell their teas locally or to other non-EU countries where requirements are not as high as in the EU. At the same time however, demand is robust or growing, especially in producing countries (e.g. black tea in China and green tea in India). In addition, most of the important European importers, manufacturers and retailers are committed to sourcing 50-100% of tea as certified in the near future, so the demand for certified tea will rise. This strengthens the position of producers who comply with a sustainability standard.

Tips:

- If the demanded cargoes are higher than your production capacity, try to engage in a cooperative.
- If the demanded cargoes are higher than your production capacity, and it's not possible to participate in a cooperative, middleman traders may be able to connect several sellers and set you up with buyers.
- Invest in long-term relationships based on mutual respect and trust: the number of tea gardens is limited especially with regard to certain (combinations of) labels. For example, there are only a few Organic-Fairtrade (double) certified gardens, making the supply vulnerable to the impact of unfavourable weather conditions, for example.
- Check your national Ministry of Agriculture and other local programmes from FAO, IFC, ICRAF, Fairtrade Africa and other organisations, e.g. Solidaridad or IDH for possible programmes to support your crop.

Productivity and diversification
Productivity differences are huge in the tea sector, between individual producers (smallholders versus tea plantations) and regions. Direct improvements can be made by adequately processing tea leaves, the better and more efficient use of inputs and by improving insights into the costs and benefits of the farm. Productivity is one of the focus points of EU buyers. Cooperation along the chain between farmers, exporters and buyers is expected to finance and increase productivity. However over-supply should be avoided as this can result in lower prices. Therefore, diversification in quality and type are key.

Tips:

- Try to engage with financing institutes in smaller projects. For the past few years, Non-Governmental Organisations (NGOs) have been more willing to work with private companies on private sector development. Look for multi-stakeholder cooperation or other finance opportunities.
- Monitor developments regarding new pricing systems. Ask you buyers about possible scenarios for guaranteed prices and orders.

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